



Jerry E. Abramson
Mayor

26 Member
Metro Council

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Office of Internal Audit



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Audit Report

Office of Internal Audit



Louisville Police Department

Miscellaneous Revenue

March 2003

Louisville Police Department

Miscellaneous
Revenue

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LOUISVILLE, KENTUCKY

OFFICE OF INTERNAL AUDIT

JERRY E. ABRAMSON
MAYOR

RON WESTON
PRESIDENT, METRO COUNCIL

Transmittal Letter

March 28, 2003

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Attached Audit of the Louisville Police Department Miscellaneous Revenue

Scope and Opinion

We have examined the operating records and procedures of the Louisville Police Department miscellaneous revenue. The primary focus of the audit was to review the operational and fiscal administration of the revenues and how the division processes, records, and monitors the activity. The review included report copies (e.g., vehicle traffic accidents, arrests, offenses), physical fitness dues, security FOBS, court ordered donations and other similar revenues. This audit did not include a review of revenues associated with the vehicle impoundment operations.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards (1994 Revision), issued by the Comptroller General of the United States; with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and Generally Accepted Auditing Standards to the extent we considered necessary to evaluate the system.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Police Miscellaneous Revenue
March 2003

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LOUISVILLE METRO HALL 609 WEST JEFFERSON STREET LOUISVILLE, KENTUCKY 40202 502.574.3291

The operating procedures of the Louisville Police Department miscellaneous revenue were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The specific topics included the following:

- Revenue Administration
- Revenue Processing

The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for miscellaneous revenue is weak. There were some specific problems noted that indicate the internal control structure could be more effective. Examples of the problems include the following.

- Report distribution and fee schedules do not adhere to requirements documented in codified ordinance. Fees collected are less than authorized amounts, thus decreasing revenue generated.
- Functional operating policies and procedures are not provided for staff. This may lead to inconsistencies in administration and management of activities.
- Revenue management could be conducted more efficiently. Several manual processes and forms are currently used that do not add value to the activity.
- Monitoring and reconciliation of revenue receipts could be improved. This lack of oversight does not adequately protect the revenue and weakens the reliability of the financial statements.

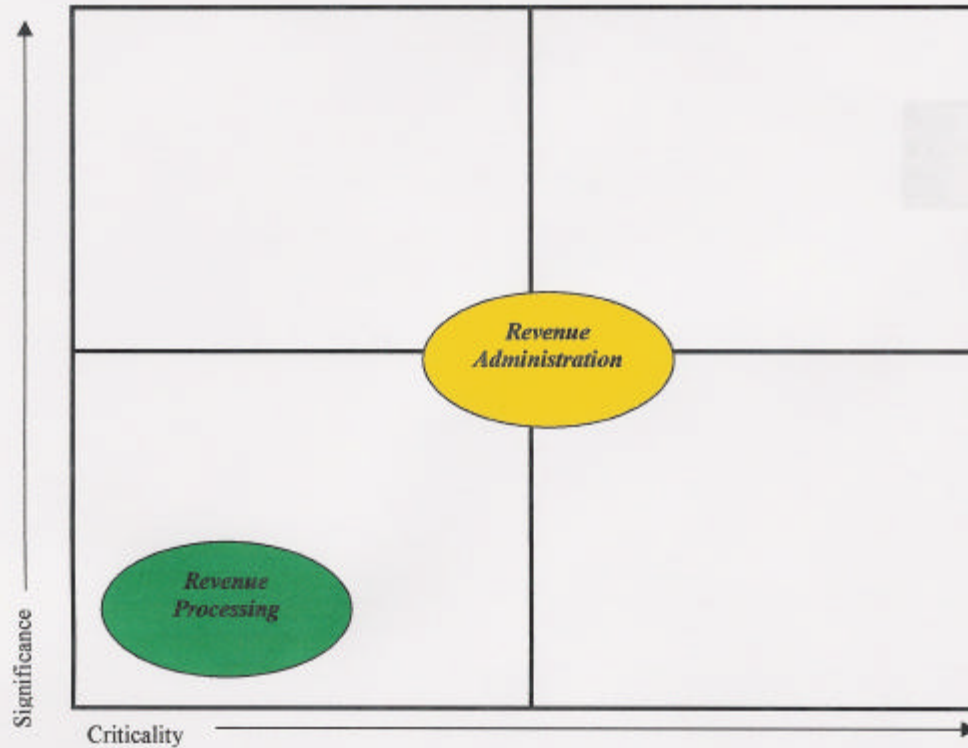
The implementation of the recommendations in this report will help improve the internal control structure and effectiveness for miscellaneous revenue.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Police Chief

Internal Control Rating



<i>Legend</i>			
<i>Criteria</i>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Introduction

The Louisville Police Department Records Center is located on the first floor of LPD headquarters. This unit manages records such as arrest reports, vehicle traffic accident reports and offense (crime) reports. In addition, the Records Center distributes copies of this information and collects the associated fees. Payments are also received for physical fitness dues, security FOBS, court ordered donations and other similar purposes. Staff are responsible for the collection, deposit, and reporting of the funds.

The fiscal year 2003 operating budget amount for miscellaneous revenue is approximately \$103,000.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not conducted any recent reviews of the Louisville Police Department miscellaneous revenue.

III. Statement of Auditing Standards

Our audit was performed in accordance with Generally Accepted Government Auditing Standards (1994 edition) issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing (2001 edition) issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

An exit conference was held at the Louisville Metro Police Department

Headquarters on February 28, 2003. Attending were Lt. Col. Steve Conrad and Debbie Fox representing the Louisville Metro Police Department; Jenni Schelling and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of the Louisville Metro Police Department officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Revenue Administration

Scope

Key Louisville Police Department personnel were interviewed in order to review the operational and fiscal administration of the miscellaneous revenue and associated activity. This included the processing, records management, and monitoring associated with receipts for report copies (e.g., vehicle traffic accidents, arrests, offenses), physical fitness dues, security FOBS, court ordered donations and other similar purposes. The following concerns were noted.

Observations

There were some problems noted with the administration of revenue and related activity. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of problems include the following.

- Codified ordinances govern several issues related to the distribution of report information and the allowable charges for copies. There were some problems regarding adherence to these ordinances. The following concerns were noted.
 - Arrest records may be released without the required waiver that should be signed by the person in question.
 - Access to accident report information is limited to specified parties. Individuals receiving copies accident reports are not required to provide proof of identity, therefore there is no way to ensure this information is provided to authorized requestors.
 - The fees collected for accident reports do not adhere to those authorized by ordinance. City of Louisville ordinance 34.107 authorizes a charge of \$2 per copy, but \$.10 per page is actually charged. A charge of \$1 is charged for copies provided in response to requests received through the mail. Fees collected are less than authorized amounts, thus decreasing revenue generated.
- While an overall policies and procedures manual does exist for LPD, there are not any detailed desk procedures for staff performing assigned tasks for revenue activity. This may lead to inconsistencies in administration and management of activities.
- LPD Records Center staff receive requests for copies of reports and payments for various purposes. Some problems were noted that hinder the efficiency and effectiveness of the revenue management. The following specific concerns were noted.
 - Cash transactions are not processed using the cash register during shift changes and closings. Records Center staff manually maintain a "ring up" envelope while the cash register is counted. Afterwards, the activity is input into the cash register.
 - A "paid" stamp is used to issue receipts for payments made during periods that the cash register is unavailable. The use of this stamp is not monitored and access

to it is not limited. It would be possible to receive funds and issue a stamp receipt without processing revenue through the intended steps.

- The forms used to record cash register activity do not track all of the necessary information (e.g., cash register reading sequence numbers, no-sales, etc.). There is no supervisory review of this activity.
 - The Record Section Daily Transmittal form manually maintained by the cashier duplicates the information automatically provided by the cash register. There is no apparent benefit or use to maintaining this form and it is an inefficient use of resources.
- Accounts receivable / payments due are not administered adequately. The following problems were noted.
 - Record requests received in the mail may be provided prior to the receipt of payment. While some attempts are made to receive payment (e.g., LPD statement of amount due, follow-up telephone call using mail processing log information, etc.), no additional collection efforts are pursued. The staff resources and forms maintained to perform this process do not promote efficiency and may not be effective.
 - There is no formal monitoring of payments due / uncollected. LPD staff do not maintain records that report payments not received for services rendered or those that collection efforts are discontinued. This hinders the ability to accumulate amounts for lost revenue.
 - Routine records checks are provided for several entities. In the case of the Jefferson County Public Schools, LPD staff maintain manual records and a check is requested when the balance approaches a \$500 threshold.
 - There is not sufficient monitoring of the revenue activity. The deposits are not reconciled to the financial statements.
 - Several types of revenue receipts (e.g., reports and records, miscellaneous, over / short, service charge for returned check) are deposited to a City general fund financial center (agency 34). These financial reports are not distributed to originating agencies, therefore LPD staff do not reconcile deposits to these financial statements. This financial management weakness is not limited to LPD. Similar problems have been noted in reviews of other City general fund accounts.
 - For receipts deposited to the financial centers assigned specifically to LPD (e.g., cellular phone charges, supplies, security FOB, etc.), supporting documentation is not reconciled to the financial statements provided to the agency.
 - On occasion, court orders may be issued requiring a donation be made to LPD. In most instances, the Business Office is not made aware of these rulings until funds are delivered by a Police Officer.

Recommendations

Appropriate Metro Police personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- All applicable policies and procedures should adhere to required guidelines (e.g., ordinances, etc.). In cases where changes are determined to be needed, applicable ordinances and policies should be amended to reflect the updated regulations.
 - ✓ Staff should only distribute reports to authorized individuals.
 - ✓ Recipients should be required to provide proof of identity when requesting closed record information.
 - ✓ Fees should correspond with documented amounts. Management staff should consider requesting that ordinances not include specific amounts, rather language could include "fees as established by the Chief of Police". These amounts could be documented in the division policy and procedures manual. Legal advice should be obtained regarding this matter.
- An analysis of fees for services should be conducted to determine the appropriate amounts to charge. This could result in increased revenues for the department.
- Written policies and procedures for the Records Center should be developed. These should supplement the LPD policies and procedures and be distributed to all applicable personnel. This manual should include sufficient detail for each job duty performed, copies of forms used and policies followed in the process of releasing information. In addition, training of key personnel will help ensure consistent adherence to the requirements.
- Cash register procedures should be updated. Proper segregation of duties, along with efficiency, should be considered. The following concepts should be incorporated into the policies and procedures.
 - ✓ At the close of each shift, the responsible supervisor should run register readings to report the period's activity. Cashiers should not be capable of running readings to determine activity totals.
 - ✓ The cashier and responsible supervisor should count and reconcile funds to the register readings together. Both individuals should sign-off that they are in agreement to the reconciliation. Any discrepancies should be thoroughly investigated. This will ensure the responsible individuals agree with the actual receipt amount and document the custody of funds.
 - ✓ Each cashier should work from an independent cash register drawer, and the balance should be verified at the opening and closing of each shift. The cashier should be held accountable for individual cash drawer funds.
 - ✓ A second cash bank should be utilized immediately after the cash register readings are taken. This will allow the relief cashier to service the public immediately. Additionally, this would eliminate the need for "ring up" envelopes and the associated manual processing.
 - ✓ A revenue activity report format should be edited to more clearly document activity. This should include register readings (beginning and ending control numbers), revenue receipts amount, types of activity (e.g., cash, checks), along with deposit and signature verification information.
 - ✓ Register readings should be monitored from one period (e.g., shift) to the next to ensure they are in proper sequence (e.g., no other readings were performed since the prior close).

- ✓ The cashiers should be required to retain all *no sale* receipts along with an explanation for opening the cash drawer with the absence of a cash transaction. These, along with any voids, returns, or corrections to register transactions should be reviewed and signed as approved by supervisory personnel.
- ✓ Register readings, applicable bank deposits slips, etc., should be attached to the cashier report and retained in a file.
- ✓ Periodically, unannounced spot checks of revenue processing should be reviewed by supervisory personnel. This would include conducting unannounced observations and spot checks of cash drawer closeouts.
- The "paid" stamp should not be used as part of the routine revenue process, rather it should be reserved as a backup measure. Use of the cash register receipt should be the standard practice. The stamp should be secured and used only for extenuating circumstances (e.g., cash register malfunction / inoperative).
- The Records Center should evaluate the usefulness and format of the forms they use to record revenue activity. Some forms contain similar information that could possibly be combined (e.g., cash register reading amounts and transmittal amounts). Other forms (e.g., statement of amount due, mail processing log) could possibly be eliminated due to lack of usefulness and efficiency.
- Several improvements should be considered regarding accounts receivable / payments due.
 - ✓ Unless there is an established relationship with the requestor, information should not be released until payment has been received.
 - ✓ Amounts due should be maintained for entities authorized to receive information prior to payment (e.g., Jefferson County Public Schools). A computerized spreadsheet would probably be the most efficient and accurate manner to maintain the account information.
 - ✓ Amounts due should be billed on a routine basis (e.g., monthly, quarterly, etc.).
 - ✓ The Finance Department's accounts receivable division should be used to process the billing and collection of account balances. This would be more efficient in that the Records Center would not have to maintain its own accounts receivable system, and would allow the use of the inherent control structure within the established system.
 - ✓ The Records Center should implement a reporting process for uncollected payments. This information may be useful in terms of determining the value of outstanding amounts and the worthiness of collection efforts. As previously noted, the Finance Department's accounts receivable system would provide this type of information if utilized.
- LPD activity currently being posted to a City general fund center should be recorded in a more appropriate financial center. A center associated with the Records Division, that ultimately could roll up to a general fund organization, should be developed to record the LPD revenue deposits. This information should be provided to the agency so that proper reconciliation and monitoring can be performed. The Department of Finance and Budget should be contacted for assistance with this matter.

- A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff review the information on a regular basis. This includes verification of receipts to the revenue records and, ultimately, to the financial statements. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- A request should be made that the Business Office be notified of court ordered donations. Implementation of a notification and monitoring process will help to ensure that funds are received and deposited accordingly. In addition, documented policies and procedures will provide direction to all personnel responsible for administering the donated funds.

Louisville Metro Police Department's Response

Police staff have reviewed the audit observations and recommendations. Issues are being addressed by instituting policies and procedures that will be incorporated into the merged department's operations. Inquiry has been made related to the codified ordinance issues and these matters will be addressed as information is received. The following are some specific areas being evaluated:

- Legal advice has been sought to ensure policies governing the release of records address legal considerations.
- Measures have been taken to control the use of the paid stamp.
- Corrective measures are being taken to improve the management of cash register activity.
- The administration of fees "receivable" will be evaluated and changes made as necessary to improve this activity.

Revenue Processing

Scope

Key Louisville Police Department personnel were interviewed in order to review the operational and fiscal administration of the miscellaneous revenue and associated activity. A sample of daily cash deposits was judgmentally selected from the period of July 1, 2002 through November 30, 2002. The review consisted of examining the daily transmittal sheets, cash register reports, cashier deposit transmittals, treasury receipts and financial system statements to determine the completeness, accuracy and appropriateness of amounts processed. The following was noted.

There were no problems noted with the processing of revenue. The overall internal control structure is satisfactory.



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Thanks for taking the time to help us. Please return in one of the following methods.

Mail: 609 West Jefferson Street, Louisville, KY 40202

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Office of Internal Audit
609 West Jefferson
Louisville, KY 40202
Phone 502.574.3291
Fax 502.574.3599
email: internalaudit@loukymetro.org
www.loukymetro.org